TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

Economy Alert

FISCAL DEFICIT – PROJECTION 2019-20

Tola Associates –
9 to 9.5% of GDP

Ministry of Finance –
7.1% of GDP

Our Recharacterized –
9.95% of GDP

PAKISTAN'S FISCAL OPERATION UPDATE

According to the data related to the fiscal operations of Pakistan, released by the Finance Ministry, Pakistan managed to contain its fiscal deficit to 8.1% of its GDP in 2019-20 which is 1.0% higher as against the estimated target of 7.1% of its GDP. In absolute amount, the fiscal deficit stands at Rs. 3,376 billion in 2019-20, which is Rs.239 billion higher than the targeted figure of Rs. 3,137 billion for 2019-20. This fiscal deficit eats up 84% of the FBR's tax revenue. This is the second successive year in which the country's fiscal deficit has remained over 8% of GDP which is real concern for the economy. We analyzed Pakistan's fiscal deficit projections and its effects in our report titled "Pakistan Economy – Pandemic Encumbrances", that got published on 8th April 2020. The same can be found on our website: https://bit.ly/2ykVJCE.

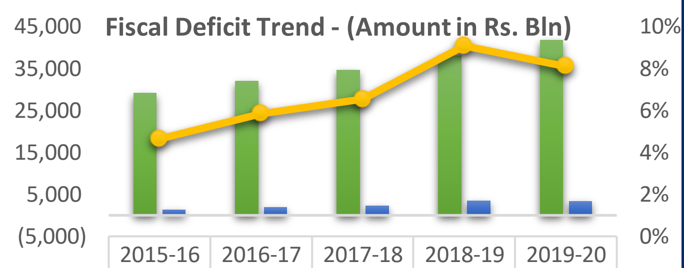
			(Amount in Rs. bln)
	Actual 2019-20	**Original Target 2019-20**	**Change**
FBR's Tax Revenue	*3,826.70	5,503	-1,676.3
National PSDP	1,089	1,613	-524
Primary Deficit	757	286	471
% of GDP	1.8	0.8	1
Budget Deficit	3,376	3,137	239
% of GDP	8.1	7.1	1

(Source: Finance Ministry)

*** FBR's actual tax Revenue stood at Rs. 3,826.70 Billion in 2019-20 as Supplementary Grants includes Rs. 101.3 billion, and Rs.71 billion tax refunds are withheld. (After adjusting average CPI 10.74% for 2019-20, FBR's actual tax revenue growth stands at negative 10.66%)**

Moreover, as per the Pakistan Bureau of Statistics ("PBS"), the overall fiscal deficit of Pakistan was under (a) manageable limit(s) during the previous regime. However, after the recording of a high fiscal deficit during 2018-19, the Federal Government has managed to contain fiscal deficit to around 8.1% of GDP in 2019-20 which was projected to stay around 9.5% of GDP.

The FBR has missed its tax revenue collection by a wide margin of Rs 1.67 trillion in 2019-20 against the IMF's original target of Rs 5.5 trillion in 2019-20. The 'interest service to FBR's tax revenue' ratio has increased from 54.60% in 2018-19 to 65.52% in 2019-20, which is indicating that there has been a significant increase in debt servicing and that tax revenues have been stagnant. Due to such stagnation, the FBR's tax revenues as a percentage of GDP has dropped to 9.57% vs 9.93% last year.



	2015-16	2016-17	2017-18	2018-19	2019-20
GDP	29,075	31,922	34,616	37,972	41,726
Budget Deficit	1,349	1,863	2,260	3,444	3,376
% of GDP	4.64%	5.84%	6.53%	9.07%	8.1%

*** The downward revised GDP figures for 2018-19 published by the PBS, due to which the fiscal deficit inched up a little from 8.9% (GDP Rs.38,559 bln) earlier reported figures to 9.07% (GDP 37,972 billion).**

The Federal Government has managed to contain fiscal deficit to 8.1% of GDP due to the following;

a) **The Federal Government has cut the Federal PSDP by Rs. 234 billion or 33% in 2019-20; and**
b) **Moreover, the Provincial governments have lapsed a huge amount, to the tune of, Rs.290 billion or 31% funds in 2019-20; and**
c) **It is pertinent to note that out of Prime Minister Covid-19 relief package of Rs1.240 trillion, Rs 540 billion or 43.54% funds remained unutilized in 2019-20; and**
d) **Against the budgeted SBP profit of Rs. 406 billion, the surplus profit of SBP stands at Rs. 935 billion in 2019-20 according to the fiscal operation data of the Ministry of Finance. The difference is in excess to the SBP profit which stands at Rs. 529 billion, has appreciated Non-Tax Revenues and contributed towards a lower fiscal deficit. The details of the said account are unavailable.**

As per the Finance Ministry's press release, the Economic Coordination Committee has now approved a supplementary grant of Rs.540 billion, remained unspent last year due to procedural conditions under the COVID-19 relief measures announced in FY2020-21. Due to the aforementioned factors, economic development and job creation has been negatively impacted.

	(Amount in Rs. bln)
Reported Fiscal deficit	3,376
Unutilized Federal PSDP	234
Unutilized Covid-19 amount	540
Actual Fiscal deficit would be	4,150
% of GDP	9.95%

If Rs.234 billion of Federal PSDP and Rs. 540 billion Covid-19 package was utilized, Pakistan's fiscal deficit would have been 9.95% of GDP. However the containment of fiscal deficit to 8.1% is reasonable enough.

The primary deficit – which is the difference between budget deficit and interest payments, stands at Rs757 billion or 1.8% of the GDP as against Rs.286 billion or 0.8% of GDP of pre-covid-19 estimates of the IMF. Whereas, post-Covid-19, the IMF had revised its estimates and projected the primary deficit to deteriorate to 2.7% of the GDP in 2020. The Finance Ministry has been seeking to the improve taxation system and broaden the tax base to keep the primary balance at a sustainable level. However, this persistence of a large stock of the fiscal deficit needs to be curtailed to bring the economy back on track.